

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-10 IO-14 NEA-11 NSAE-00 OPIC-06 LAB-04
SIL-01 AGRE-00 XMB-04 PA-02 DOE-15 SOE-02 INT-05
OES-07 /171 W
-----053139 092138Z /61

R 091903Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8373
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(MAY 2-9)

REF: BONN 474, BONN 1777, BONN 8126

1. SUBJECTS COVERED: FINANCE MINISTRY PROPOSES DM 0.9
BILLION SUPPLEMENTARY BUDGET FOR 1978; FEDERAL GOVERN-
MENT EXPENDITURES AHEAD OF SCHEDULE SO FAR THIS YEAR;
GOVERNMENT CONTINUES TO SEEK COMPROMISE ON FEDERAL/STATE
ENERGY CONSERVATION PROGRAM; BUNDESBANK FOREIGN POSITION;
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BANK LIQUIDITY; FOREIGN EXCHANGE MARKETS (TABLE);
MONEY MARKETS (TABLE) BOND MARKET (TABLE); FOREIGN
DM BONDS; ECONOMIC INDICATORS PUBLISHED THIS WEEK
(TABLE)

2. FINANCE MINISTRY PROPOSES DM 0.9 BILLION SUPPLE-
MENTARY BUDGET FOR 1978:

THE FINANCE MINISTRY HAS NOW COMPLETED THE DRAFT OF THE SUPPLEMENTARY BUDGET FOR 1978 ANNOUNCED BY FORMER FINANCE MINISTER APEL IN JANUARY (SEE BONN 474). THE DRAFT PROVIDES FOR EXPENDITURES OF DM 0.94 BILLION -- PRIMARILY SUBSIDIES FOR THE COAL AND STEEL INDUSTRIES -- TO BE FINANCED BY BORROWING (DM 0.71 BILLION) AND CUTS (DM 0.23 BILLION) OF EXPENDITURES CONTAINED IN THE APPROVED REGULAR BUDGET FOR 1978 (BONN 1777). THE SUPPLEMENTARY BUDGET, IF APPROVED AS PROPOSED, WOULD 1) RAISE TOTAL FEDERAL OUTLAYS BUDGETED FOR 1978 TO DM 189.4 BILLION, UP 10.8 PERCENT OVER ACTUAL 1977 EXPENDITURES, AND 2) INCREASE THE NET BORROWING AUTHORITY TO DM 31.5 BILLION, VERSUS THE DM 21.7 BILLION DEFICIT ACTUALLY INCURRED LAST YEAR. THE DRAFT IS GENERALLY EXPECTED TO BE APPROVED BY THE CABINET ON MAY 10 AND SUBMITTED TO THE LEGISLATURE SUBSEQUENTLY.

3. FEDERAL GOVERNMENT EXPENDITURES AHEAD OF SCHEDULE
SO FAR THIS YEAR:

ACCORDING TO PRELIMINARY STATISTICS, FEDERAL EXPENDITURES DURING THE FIRST QUARTER EXCEEDED COMPARABLE 1977 LEVELS BY 15 PERCENT, WHICH CONTRASTS WITH A BUDGETED ALL-YEAR GROWTH RATE OF 10.8 PERCENT, ASSUMING APPROVAL OF SUPPLEMENTARY BUDGET - SEE PARAGRAPH 2. THIS DEVELOPMENT, THE MINISTRY EXPLAINED, IS FULLY COMMENTED ON IN THE FOLLOWING PARAGRAPH.

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SURATE WITH THE UNDERLYING MACRO-ECONOMIC SITUATION, IMPLYING THAT THE GOVERNMENT HAD SOUGHT EARLY EFFECTUATION OF APPROVED INVESTMENT-TYPE EXPENDITURES. NET FEDERAL BORROWING DURING THE FIRST QUARTER CAME TO DM 11.8 BILLION, I.E., WELL OVER ONE-THIRD OF THE TOTAL ANTICIPATED FOR THE YEAR (SEE PARAGRAPH 2).

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4. GOVERNMENT CONTINUES TO SEEK COMPROMISE ON
FEDERAL/STATE ENERGY CONSERVATION PROGRAM:

FOLLOWING VETO BY BADEN-WUERTTEMBERG OF A
PROPOSED JOINT FEDERAL/STATE ADMINISTRATIVE DECREE
DESIGNED TO IMPLEMENT THE DM 4.4 BILLION FEDERAL/STATE
ENERGY CONSERVATION PROGRAM (BONN 474), THE GOVERNMENT
HAS ATTEMPTED TO SALVAGE THE PROGRAM THROUGH SPECIAL
DRAFT LEGISLATION. THE DRAFT AS AMENDED IN THE
BUNDESTAG COMMITTEE PROVIDES FOR A COMBINATION OF
DIRECT SUBSIDIES (DM 2.85 BILLION) AND TAX CONCESSIONS
(DM 1.5 BILLION) FOR ENERGY-SAVING INVESTMENTS OVER A
FIVE YEAR PERIOD, WHEREAS THE DECREE HAD ENVISAGED
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FINANCING OF THE ENTIRE PROGRAM THROUGH SUBSIDIES ONLY.
THE BUNDESTAG VOTE ON THE BILL HAS BEEN SCHEDULED FOR
MAY 11, WITH APPROVAL BY MAJORITY VOTE OF THE
COALITION PARTIES GENERALLY TAKEN FOR GRANTED. HOWEVER,
THE DRAFT LEGISLATION ALSO REQUIRES THE BLESSING OF THE
BUNDESRAT. GIVEN CONTINUED OBJECTIONS IN CDU/CSU
QUARTERS, WHO REPORTEDLY SEEK A 50:50 SPLIT BETWEEN
TAX PRIVILEGES AND DIRECT SUBSIDIES, THE BILL MAY
WELL END UP IN THE BUNDESTAG/BUNDESRAT CONFERENCE
COMMITTEE.

(THE FOLLOWING TWO PARAGRAPHS ARE BASED ON PRESS
REPORTS SINCE DETAILED BUNDESBANK DATA WERE NOT YET

AVAILABLE TO THE EMBASSY.)

5. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD APRIL 23 TO 30, THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.7 BILLION TO DM 83.3 BILLION. DURING THE FULL MONTH OF APRIL THE BUNDESBANK'S FOREIGN POSITION FELL BY DM 1.7 BILLION, THE FIRST DECLINE SINCE SEPTEMBER OF LAST YEAR. ACCORDING TO THE BUNDESBANK, THIS INDICATES THAT IN APRIL LARGE NET CAPITAL EXPORTS PREVAILED WHICH MORE THAN OFFSET AN ANTICIPATED SURPLUS IN THE CURRENT ACCOUNT BALANCE.

6. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY IMPROVED BY DM 0.9 BILLION. THE BASIC FACTOR INCREASING LIQUIDITY WAS A SUBSTANTIAL DM 7.8 BILLION DECLINE IN BUNDESBANK ASSETS OF PUBLIC AUTHORITIES, MAINLY REFLECTING USUAL END-OF-MONTH PAYMENTS. LIQUIDITY WAS REDUCED BY THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END UNCLASSIFIED

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OF A MONTH (DM 3.8 BILLION), A DM 2.0 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK TO MEET APRIL RESERVE REQUIREMENTS AND THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSITION. OTHER FACTORS REDUCED LIQUIDITY, NET, BY DM 0.4 BILLION.

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R 092013Z MAY 78

FM AMEMBASSY BONN
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7. FOREIGN EXCHANGE MARKET:

THE DOLLAR STRENGTHENED OVER THE REPORTING PERIOD, AS
 FOREIGN EXCHANGE TRADING CONTINUED TO BE CON-
 DUCTED IN A RATHER CALM ATMOSPHERE. FOR THE PERIOD
 MAY 2-9, FRANKFURT SPOT AND FORWARD DOLLAR RATES
 DEVELOPED AS FOLLOWS:

	SPOT DOLLARS		FORWARD DOLLARS		
	(IN DM PER \$1.-)		(IN PCT. PER ANNUM)		
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
MAY 2	2.0778	2.0740	2.0810	-3.9	-4.4
3	2.0835	2.0787	2.0797	-4.2	-4.3

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4	----- GERMAN HOLIDAY -----				
5	2.0715	2.0718	2.0775	-4.8	-4.4
8	2.0825	2.0848	2.0907	-4.6	-4.5
9	2.0910	2.0960	N.A.	N.A.	N.A.

8. MONEY MARKETS:

FOR THE PERIOD UNDER REVIEW, FRANKFURT INTERBANK
 LENDING RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
MAY 2	3.50-3.55	3.55	3.55
3	3.50-3.60	3.55	3.55
4	----- GERMAN HOLIDAY -----		
5	3.50-3.60	3.55	3.55
8	3.50-3.55	3.55	3.55

9. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS TURNOVER WAS LOW DUE
 TO THE TWO GERMAN HOLIDAYS IN THE PREVIOUS WEEK. PRICE

DECLINES FOR OUTSTANDING BONDS WITH SHORTER REMAINING MATURITIES ENDED, BUT CONTINUED FOR BONDS WITH LONGER MATURITIES. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING MATURITY

(YEARS)	1	3	5	7	9	10
	---	---	---	---	---	---
MAY 5	3.85	4.75	5.20	5.70	6.00	6.10
APRIL 28	3.85	4.75	5.20	5.65	5.95	6.05

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10. FOREIGN DM BONDS:

ON THE MARKET FOR FOREIGN DM BONDS PRICE DECLINES SLOWED DOWN. THE DM 100 MILLION LOAN OF THE EUROPEAN COUNCIL (SEE BONN 8126) WILL CARRY A COUPON OF 6 1/8 PERCENT AND A MATURITY OF 10 YEARS WITH REPAYMENT TO BEGIN AFTER 5 YEARS (ISSUE PRICE PROBABLY 100). THE DM 100 MILLION OF CONVERTIBLE BONDS OF THE JAPANESE SEIYU STORES LTD. (SEE BONN 8126) WILL BE SOLD AT A COUPON OF 3 3/4 PERCENT AND A MATURITY OF 8 YEARS. THE NIPPON SHINPAN CO., TOKYO, CURRENTLY NEGOTIATES THE ISSUE OF CONVERTIBLE BONDS OF DM 50 MILLION WITH THE BERLINER HANDELS- UND FRANKFURTER BANK. THE BONDS ARE EXPECTED TO CARRY A MATURITY OF 7 YEARS, A COUPON OF 3 3/4 PERCENT, AND AN ISSUE PRICE OF 100. THE INDUSTRIAL BANK OF JAPAN REPORTEDLY PLANS THE ISSUE OF A DM 100 MILLION LOAN, CONDITIONS ARE NOT YET KNOWN.

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11. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

UNEMPLOYMENT

1978

JAN. FEB. MARCH APRIL

SEASONALLY ADJUSTED

THOUSANDS 1,006 1,020 1,021 999

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PCT. OF LABOR FORCE 4.4 4.5 4.5 4.4

NON-SEASONALLY ADJUSTED

THOUSANDS 1,213 1,224 1,099 1,000

PCT. OF LABOR FORCE 5.4 5.4 4.9 4.4

NOTE: PRELIMINARY MARCH 1978 PRODUCTION AND ORDER VALUE

DATA ARE CONTAINED IN BONN 8491.

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Disposition Date: 01 jan 1960
Disposition Event:
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Litigation Codes:
Litigation History:
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SAS ID: 2756113
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS IN GERMANY (MAY 2-9)
TAGS: ECON
To: STATE TRSY
Type: TE
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